



# Performance, Compensation & Talent Management Committee

## Agenda Item 6b

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**November 19, 2019**

**Item Name:** Market Compensation Data and Recommendations for the Chief Executive Officer Position

**Program:** Administration

**Item Type:** Action

### **Recommendation**

Review the total cash compensation data for the Chief Executive Officer position provided by McLagan. Retain or modify the base salary and/or incentive ranges for the Chief Executive Officer position based on the corresponding recommendations from the Board's Primary Executive Compensation Consultant (Consultant), Grant Thornton.

### **Executive Summary**

The agenda item is being presented in response to direction received from the Chair of the Performance, Compensation and Talent Management Committee (Committee) at the September 2019 meeting.

Government Code section 20098 provides authority for the CalPERS Board of Administration (Board) to set compensation for positions covered under the code. This agenda item presents comparator group compensation data for the Chief Executive Officer (CEO) position. The Board's Consultant is also here to present recommendations based on the data and for consideration by the Committee.

Upon review of the data and recommendations, the Committee may choose to retain or modify the base salary and/or incentive range for the CEO position. The CEO is one of two remaining covered positions for which compensation has not been revised to align with market data and in accordance with the pay philosophy adopted by the Board over the last several meetings for other covered positions.

### **Strategic Plan**

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2017-22 Strategic Plan. The Executive Compensation Program provides a means for recruiting, retaining, and empowering highly-skilled executives to meet organizational priorities and strengthen the long-term sustainability of the pension fund by generating returns to pay member benefits.

## Background

Since June of 2018, the Committee has approved recommendations from the Board's Consultant, for revised or new base salary and incentive ranges for most of the positions covered under Government Code section 20098.

Recommendations were based on a pay philosophy to set total cash (base salary plus incentive opportunity) at or near the 50<sup>th</sup> to 75<sup>th</sup> percentile of the comparator group defined in the Board's Compensation Policy for Executive and Investment Management Positions.

Recommendations were derived from survey data presented by McLagan in 2015, with conservative adjustments applied to recognize market increases over time. Table 1 below reflects base salary and total cash positioning compared with the Board-approved peer group for each position for which the Committee has approved revised or new base salary and incentive ranges over the compensation review process with the Board's Consultant.

Table 1

<b>Classification</b>	<b>Month and Year of Committee Approval</b>	<b>Comparator Group Percentile: Base Salary Only</b>	<b>Comparator Group Percentile: Total Cash</b>
Chief Investment Officer	June 2018	75 <sup>th</sup>	Slightly above 50 <sup>th</sup>
Chief Financial Officer	June 2018	50 <sup>th</sup>	Between 50 <sup>th</sup> and 75 <sup>th</sup>
Chief Operating Officer	December 2018	n/a <sup>1</sup>	n/a <sup>1</sup>
Investment Management Positions	February 2019	50 <sup>th</sup> – 75 <sup>th</sup> , depending on position	50 <sup>th</sup> – 75 <sup>th</sup> , depending on position
Chief Health Director	March 2019	n/a <sup>1</sup>	n/a <sup>1</sup>
General Counsel	September 2019	50 <sup>th</sup>	Slightly below 75 <sup>th</sup>

At the September 2019 Committee meeting, the Committee Chair requested team members return with peer comparator group data for the CEO position. Given the time elapsed since the 2015 survey, the Human Resources Division engaged with McLagan to conduct a survey of total cash compensation based on the following blend of private and public-sector data defined in the Board's Policy for Executive and Investment Management Positions (page 6):

Leading US public funds, leading Canadian public funds, select California-based agencies (including large local agencies), banks and insurance companies.

## Analysis

Michael Oak of McLagan will present the compensation survey data results (Attachment 1) for the Committee's review. Additionally, the Board's Consultant, Grant Thornton, will present their recommendations for aligning compensation for the CEO position with the Board's pay philosophy and other recommendations approved by the Committee over the last 18 months for other covered positions.

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<sup>1</sup> Classification excluded from comparator group data; utilized other similar agency/organization data

Upon review of the recommendations, the Committee may choose to adopt a new base salary and/or incentive range or retain the existing ranges for the CEO position. If the Committee chooses to adopt a new base salary and/or incentive range, it will become effective July 1, 2020, unless otherwise directed by the Committee. If the Committee chooses to revise the base salary and/or incentive for the CEO, CalPERS team members will update the Board's Compensation Policy for Executive and Investment Management Positions.

### **Budget and Fiscal Impacts**

If the Committee and Board approve a revised salary and/or incentive range for the CEO position, the cost will be the difference between the current and revised base salary and/or incentive range, as well as any associated increases to retirement, OASDI, OPEB, and Medicare contributions. Board decisions with a budgetary impact will be accounted for during fiscal year 2020-21 budget planning.

### **Benefits and Risks**

Approval of a revised base salary range will align this position with market data for the CEO position and the pay philosophy utilized for other positions for which compensation was revised during the last several months. It will enhance CalPERS ability to retain current and future incumbents.

### **Attachments**

Attachment 1 – McLagan Compensation Survey Data Presentation

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